

For further information:
Ben Steffen
Deputy Director, MHCC
410-764-3570

NEW REPORT SHOWS \$19.1 BILLION IN HEALTH CARE SPENDING BY MARYLANDERS, UP \$846 MILLION IN 1999

BALTIMORE, MD (January 11, 2001) -- At a meeting here today, the Maryland Health Care Commission ("MHCC" or "Commission") released a report that provides an objective and independent look at health care expenditures and utilization by Maryland residents. The report, ***State Health Care Expenditures: Experience from 1999***, contains information on total expenditures for the state by public and private sources, as well as more specific information on expenditures for the major regions of the state. In releasing this report, the Commission meets its mandate to report annually on the state's total reimbursement for health care services in accordance with health care reform legislation passed in 1993. The report enables purchasers of health care services to compare how their use of health care services compares to the state, to other regions within the state, and to the nation as a whole.

Major findings include:

- ***Total health care spending for Maryland residents grew in 1999 to \$19.1 billion, up from \$18.2 billion in 1998.*** The 1999 rate of increase is slightly below the national rate for comparable expenditure categories as estimated by the federal Health Care Financing Administration (HCFA) in the National Health Care Expenditure Account. The average direct per capita expenditures across all residents for all services in 1999 was \$3,284, up 2.7 percent from \$3,198 in 1998. Health care expenditures for Maryland residents, as a share of personal income, remains at 11 percent. This figure has held constant throughout the late 1990's suggesting growth in personal income has kept pace with increases in health care expenditures.
- ***Private sector spending grew more rapidly than government spending in 1999. Spending by private insurers and HMOs increased by 7.4 percent in 1999.*** This increase is comparable to the 7.3 percent rate of growth reported for 1999 by William M. Mercer in the National Survey of Employer-Sponsored Health Plans and the national 8.3 percent growth in premiums for 2000 reported by the Center for Health System Change, a non-partisan health policy organization in Washington, D.C. Patient out-of-pocket spending increased by 4.0 percent, but government spending increased by only 2.4 percent. The private sector, including private payers and patient out-of-pocket (OOP) payments, funds about 60 percent of health expenditures in the state, but the private sector accounts for over 80 percent of the increased spending in 1999.
- ***HMO enrollment changes did not follow Maryland's historical trend of ever increasing HMO membership in 1999.*** Private HMO enrollment and expenditures declined slightly and were down significantly for seniors under Medicare+Choice. The Medicaid program experienced 11 percent growth in both HealthChoice expenditures and enrollment. Lack of growth in private HMOs is attributable to several factors, including adverse publicity regarding HMOs and the blurring of differences between HMOs and other traditional products. HMO enrollment declines may also reflect a movement from fully-insured products to self-insurance for some larger firms.

- **Results from 1999 reinforce the recent trend in Maryland towards greater reliance on drug therapies, physician services, and other forms of health services.** This trend is fueled by an increasing availability of pharmaceutical therapies and explicit efforts on the part of almost all payers to shift the delivery of services into outpatient settings whenever it is clinically appropriate. Expenditures for inpatient services continue to decline. Although this sector accounts for around one-quarter of total spending, it contributes only 13.1 percent to the statewide expenditure increase. Physician services, as a share of total expenditures, were up slightly due to spending growth of 5.1 percent.
- **Prescription drug expenditures jumped by 22.2 percent, the largest increase of any major expenditure category.** Expenditures increased despite tighter plan management, including the growing use of drug formularies, and increased patient co-payments. Factors contributing to growing prescription drug expenditures include continuing expansions in drug treatment protocols for common chronic conditions, overall drug price inflation and increasing patient utilization, somewhat fueled by the direct marketing of prescription drugs to consumers. Despite rising co-payments and a growing use of formularies, many individuals with prescription drug coverage were buffered from the impact of greater prescription drug spending in 1999 as third-party payers absorbed significant shares of increases in expenditures. Patients without prescription coverage, however, pay an increasingly greater differential for drugs as the gap between retail prices and discounted prices negotiated by large purchasers widens. Almost half (47.2 percent) of the increase in total spending is attributable to prescription drugs.
- Significant differences in per capita health expenditures (excluding administrative expenses) continue to exist across the regions of the state underscoring the regional variations in population health status, provider supply, service price, and payer mix. **The Baltimore Metropolitan Area has the highest expenditures per capita at \$3,703. The four remaining regions have expenditures per capita ranging from \$3,139 for the Eastern Shore to \$3,322 for Southern Maryland.** Higher shares of Medicare and Medicaid enrollees were contributing factors in the Baltimore Metropolitan Area's higher per capita spending. Southern Maryland experienced the most rapid increase in per capita spending, up 8.3 percent in 1999. Increasing per capita incomes, declining numbers of uninsured, and declining HMO enrollments in Medicare+Choice and in private plans contributed to the growth in that region.

Donald E. Wilson, M.D., chair of the MHCC, and Vice President for Medical Affairs at the University of Maryland and Dean of the School of Medicine, commended the release of the report. "This report continues the Commission's effort to more precisely measure the changing face of health care in Maryland. The report would not have been possible without the support of other government and private organizations that provided information. The Commission is grateful to these organizations for working closely with Commission staff to complete this study in time for the 2001 session of the Maryland General Assembly."

Wilson went on, "private sector health care expenditures are rising steadily, we are now seeing that tightly managed care has not produced promised savings. The spending increases we see in 1998 and 1999 are already having a significant impact on health care premiums in small and large group insurance markets. These increases further reduce the affordability of health insurance." Dr. Wilson further commented, "I am especially troubled by the large increase in prescription drug spending. These increases fall especially hard on vulnerable populations and seniors without drug coverage. I hope that by releasing this new information on the cost of health care, the Commission can provide information that enables payers, purchasers, providers, consumers, and policymakers to develop prudent initiatives to slow spending while expanding access to insurance for Maryland residents."

He concluded, "These results underscore the need for continuing work, especially in the coverage of prescriptions. By bringing information into the open, we are in a position to respond to the forces that affect our ability to purchase and access needed care."